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UPCOMING FEDERAL STUDENT AID CHANGES

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This report describes upcoming changes to federal financial aid programs for higher education. The changes take effect July 1, 2012 and affect both Pell Grants and student loans. They include eliminating or suspending certain loan subsidies and repayment incentives, increasing interest rates, and modifying Pell Grant and loan eligibility criteria.

The changes, except where noted, were made in the federal Consolidated Appropriations Act of 2012 (P.L. 112-74). They are also described on the U.S. Department of Education's website:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/recentChangesSA.jsp>

LOANS

Subsidized Loans

Students who borrow federal direct loans (both subsidized and unsubsidized) generally have a six-month grace period after leaving school before they must begin repaying the loan. For students with subsidized loans (those for which the government pays the interest while the student is enrolled), the government continues paying interest during the grace period. However, the act suspends this provision for subsidized loans issued between July 1, 2012 and June 30, 2014, meaning that the

government will not pay the interest on such loans that accrues during a grace period.

Additionally, the federal Budget Control Act of 2011 (P.L. 112-25) prohibits graduate and professional students from receiving subsidized federal student loans on and after July 1, 2012.

Repayment Incentives

The Budget Control Act eliminates certain repayment incentives for graduate and undergraduate student loans disbursed on or after July 1, 2012. Currently, borrowers of both subsidized and unsubsidized loans are charged a 1% loan origination fee but receive an up-front rebate for half of that amount (0.5%). Another federal loan, the PLUS loan (an unsubsidized loan available to parents and graduate students), has an origination fee of 4% and an up-front rebate of 1.5%. Both loans previously allowed the borrower to keep the rebate if he or she makes the first 12 payments on time. The act eliminates these rebates. However, it maintains the current quarter point interest rate reduction for borrowers who have payments automatically debited from a bank account. For more details about the Budget Control Act provisions, please see OLR Report [2011-R-0295](#).

Interest Rate Increase

The interest rate for subsidized federal student loans is currently 3.4%. It will double, to 6.8%, for loans issued on or after July 1, 2012. (The College Cost Reduction and Access Act of 2007 (P.L. 110-84) gradually lowered interest rates, from 6.8% to 3.4%, between 2008 and 2012, but did not extend the lower rates past 2012.) Congress is currently considering legislation to stop this rate increase.

PELL GRANTS

The Consolidated Appropriations Act leaves the maximum annual Pell Grant award at \$5,500. However, it reduces, from 18 to 12, the maximum number of full-time semesters for which students may use Pell Grant funding. The change takes effect in the 2012-2013 school year and applies to all students, including current award recipients. Thus, if a current student has already had 12 or more semesters of Pell Grant funding, he or she will not receive an award in 2012-2013.

By law, the minimum Pell Grant award is 10% of the maximum award (meaning the minimum award is \$550). Under prior law, students eligible for awards of at least 5% of the maximum but less than 10% were

“bumped up” to a 10% award. The act eliminates this provision for grants issued on or after July 1, 2012, thus making these students ineligible for an award.

ELIGIBILITY FOR FEDERAL STUDENT AID

The Consolidated Appropriations Act requires students first enrolling in a postsecondary education program on or after July 1, 2012 to have a high school diploma or GED or have been home-schooled in order to be eligible for federal student aid. Under prior law, students without these credentials could receive a loan or Pell Grant if they demonstrated their capacity to benefit from college access through testing or course completion.

The act also reduces, from \$32,000 to \$23,000, the adjusted gross income at which a family or student meeting certain criteria is considered to have an Expected Family Contribution (EFC) of zero. The EFC is the amount a student or family is expected to contribute toward college costs and is used to determine the amount and type of federal aid for which the student is eligible.

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